

**Address to Variety/Schroeders Big Picture Conference**

By Michael Eisner, Chairman & CEO

The Walt Disney Company

Thank you, Jill.

Today I am not going to stand up here and promote The Walt Disney Company. I am going to resist the temptation to talk about "Who Wants To Be a Millionaire" or ESPN or Walt Disney World or Disneyland or our new theme parks in Anaheim and Tokyo or "Tarzan" on DVD or "Fantasia 2000" on Imax or the redesign of The Disney Stores or ...O.K., no more "ors". Did I mention Hong Kong Disneyland?

My mission today is not to sing the praises of our company ... although I have an alternate presentation if I hear of any selling of our stock during the next 20 minutes. Today, I feel I don't need to describe the solidity of our cash flow or return on investment or use of capital. I figure that enough of you have been doing this for us of late that I can take a break. I will, however, be available in the lobby afterward for anyone interested in buying tickets to "Aida."

But, for now, I intend to talk about a much wider issue beyond just Disney ... one that affects all of the entertainment companies – and that is the protection of intellectual property in the digital age. Countless words have been spoken on the subject ... and I'm about to speak a few more.

But, talk alone isn't adequate to cover this issue. After all, intellectual property encompasses more than just words – it's about art, music and imagery as well. So, I figured I would be doing a disservice by just delivering the usual 20-minute spoken keynote. What's more, if it is true that a picture is worth a thousand words, how many words are *ten thousand* pictures worth? Actually, not just pictures, but dramatically original computer-generated images.

Enough words. Let me show you.

[VIDEO – Opening of "Dinosaur",

freeze-framing abruptly as the pterodactyl is flying over herds of dinos]

O.K., let's stop right there. As you have probably figured out, you've just seen the first few minutes of our upcoming film, "Dinosaur." Of course, we have high hopes for this picture. But, that's not why I showed it to you.

The debate over intellectual property often gets buried in jargon. The term “intellectual property” itself is obtuse legalese that sounds like a euphemism for the jar holding Albert Einstein’s brain.

So, I thought I’d try and move away from the jargon and simply show you what the debate is all about – a piece of authentic intellectual property.

Of course, intellectual property is a rather wide-ranging category that covers everything from piano songsheets to computer software. But ultimately, it is about the work of the human imagination, such as what you see here on the screen.

What is now urgently needed is the implementation of a legislative, economic and technological environment that will foster creativity and encourage the legitimate use of all those silicon chips to create more flights of fancy like this. Otherwise, the same technology that enabled our artists to create these incredible images could also make them go away.

This is the perilous irony of the digital age.

Thanks to computer technology, filmmakers have been able to take us to incredible places in the last few years. They have hurled us into the heart of a tornado, they have invited us on board the Titanic, they have rocketed us to a galaxy far, far away. And this May, they will enable us to walk among the dinosaurs.

But, unfortunately, just as computers make it possible to create startlingly pristine images, they also make it possible to create startlingly pristine copies.

To fully appreciate the extent of this dilemma, I believe it’s instructive to take a brief dino tour of the history of American cinema.

[VIDEO – “The Lost World”]

This was one of the first Hollywood blockbusters – “The Lost World,” made in 1924. It may look crude today, but back then it was magic to audiences who had little idea how the filmmakers were able to seemingly bring dinosaurs back to life.

[VIDEO – “King Kong”]

In 1933 came “King Kong,” which made a giant leap in special effects ... and, of course, it added sound, which allowed audiences to hear the incessant screaming of Fay Wray.

[VIDEO – Fay Wray in King Kong’s paw screaming]

[VIDEO – “Godzilla”]

The next landmark film on this dino tour was “Godzilla” in 1954. “Godzilla” may have spawned any number of cheesy sequels, but the first one set a new standard in the depiction of scaly monsters, and entranced and terrified audiences from Tokyo to Tacoma. I might add that we have received legal clearances to show you all this terrific copyrighted intellectual property of our competitors.

In 1993, as I’m sure you all remember, “Jurassic Park” came along ... and, by the way, we couldn’t get those clearances. This film raised the dino bar even higher by utilizing the creative power of the computer to seamlessly integrate completely authentic-looking dinosaurs in a live-action film.

These dinosaur movies offer just one slice of the progression of our industry. I could just as easily have tracked the evolution of any number of other genres – gangster movies, from Cagney to Coppola ... comedies, from Chaplin to Carrey ... adventures, from Fairbanks to Ford ... romances, from Hepburn & Tracy to Ryan & Hanks.

As you may have noticed, none of the films I’ve referred to came from The Walt Disney Studios. This is completely intentional. Our studio has a proud history, but we have hardly cornered the market on creating great intellectual property. In the 20<sup>th</sup> century, Hollywood was one of the great American success stories – but it was truly a collective success story.

To appreciate just how successful, consider the significance of America’s copyright-related industries, which include motion pictures, television, home video, music, publishing and computer software. In 1977, these industries added \$160 billion to the U.S. economy, or roughly 3.6% of GDP. In 1997, this figure had grown to nearly \$530 billion, representing 6.3% of GDP.

This growth is all the more significant when you consider that a tremendous amount of these revenues are generated overseas. In just six years – from 1991 to 1997 – the foreign sales and exports of copyright-related industries nearly doubled from \$36 billion to \$66 billion. As a result, foreign sales from copyright industries are now greater than almost every other industry category, including such major exporters as the automotive industry and the agriculture industry.

We now need to ensure that the necessary steps are taken to make sure that the success story of American intellectual property during the 20<sup>th</sup> century is not undermined during the 21<sup>st</sup>.

To give you an idea of what's really at stake, allow me to return to prehistoric times. We left off the "Dinosaur" clip with this shot.

[VIDEO – Freeze frame of pterodactyl flying over dinos]

Even being held in freeze frame for you to scrutinize, this looks like an impeccable aerial shot following a pterodactyl as it flies over a herd of dinosaurs. Unfortunately, we weren't able to find any real dinosaurs to star in the film ... and if we had, I understand they're terribly hard to train. So, we had to digitally birth them ourselves, bit by bit.

It took more than four years, and it required the invention of proprietary technologies.

First, we had to shoot the live-action backgrounds. To do this, we designed something we called a "dino cam."

[VIDEO – Dino cam at work]

As you can see here, it is a camera suspended by cables that are attached to two 70-foot towers. This allowed us to make extremely fluid tracking and crane shots that could quickly go from the height of a 50-foot brachiosaur down to the eye level of a lemur. Our camera team spent 18 months taking the dino cam to a range of locations that included Australia, Jordan, Venezuela, Hawaii, Western Samoa ... and even so far as the Los Angeles County Arboretum in exotic Arcadia.

Of course, there was no point to the dino cam if there were no dinos. So, we built our own digital animation studio back in Burbank and filled it with an extraordinary team of computer animators.

[VIDEO – Dinosaur production montage  
to illustrate the following]

These animators first created digital skeletons to better understand how dinosaurs were engineered.

Then they layered on musculature so their creations could move realistically.

Then there was the skin. Not only did it have to look completely real, but it had to have a sense of mass and weight that would convincingly relate the tremendous size of these animals.

Then our animators took on another challenge that was completely unknown in the Cretaceous Era. Our dinosaurs would talk. So, each dinosaur needed to be designed in such a way that it could convincingly mouth words.

All of this resulted in a tremendous amount of data that had to be processed. So, we built what we called a “render farm.” This “farm” was a room full of computers running 24 hours a day to crunch all those billions of zeros and ones.

To give you some sense of the detail that went into the film, let’s look again at one brief shot.

[VIDEO – Dinosaur running through the water  
amidst giant dinosaur legs, then freeze frame]

Let me build that scene for you step by step.

[VIDEO – “Build” to illustrate the points]

First the dino cam filmed a tracking shot across a pond.

Then we added the brachiosaurs in the background.

Next, we created rough animation of the youthful dinosaur, who happens to be a parasauralophous.

Then we introduced the final animation of the dinosaur along with a flock of birds flying and the giant legs of some more brachiosaurs.

Next, we inverted all of these images in order to show their reflections in the water.

In order to make it look like the dinosaur is really interacting with the water, we added splash and ripple effects.

Finally, we composited all of these elements to produce the finished scene.

[VIDEO – Run the finished sequence]

This is one magic trick where even once you know how it was done, it still dazzles.

I’ll resist the temptation to go on and on about the countless ingenious tricks that our animators and technicians devised to make this film, because my point isn’t to



promote the film – but, in case you were wondering, it opens May 19 in a theater near you. My point is that we have created a movie that took four years to make, during which 45 million megabytes were crunched – or enough data to fill 70,000 CDRoms – all to generate the necessary data for an 80-minute film ... which, were it to get in the wrong hands, could be compressed onto a single DVD disk in a matter of minutes and instantaneously put on the Internet while the film is still in the theaters.

In other words, this film represents the flesh and bones – or, in this case, scales and bones – of that highfalutin legalistic term, “intellectual property.” And, it is all put in jeopardy by an old-fashioned everyday term – “piracy.”

But, in this context, I’m not talking about the comical characters sailing the high seas at the Pirates of the Caribbean. Rather, I’m talking about an underground of secretive and sequestered Pirates of Encryption – the hackers who shamelessly assert that anything they can get their hands on is legally theirs.

You are all no doubt familiar with the controversy over iCrave.com, which claimed the right to pluck television signals off the air and stream them on the Internet for all the world to see. They tried to argue that the Internet operates by a different set of rules and values, and therefore all’s fair in love and webcasting.

There is no question that the Internet is an exciting and dynamic new force in commerce and entertainment. But so were, in their time, radio and television. And they had to play by the same boring old rules involving copyright infringement.

These Internet pirates try to hide behind some contrived New Age arguments of the Internet, but all they are really doing is trying to make a case for Age Old thievery. When they hack a DVD and then distribute it on the web, it is no different than if someone puts a quarter in a newspaper machine and then takes out all the papers, which, of course, would be illegal and morally wrong.

The pirates will argue that this analogy is unfair, maintaining that all they’re doing is cracking a digital code. But, by that standard, it would be justifiable to crack a bank code and transfer the funds from someone else’s account into your own. There’s just no way around it – theft is theft, whether it is enabled by a handgun or a computer keyboard.

The piracy of intellectual property takes all forms. I don't know if any of you have ever seen one of the videotapes for sale on the sidewalks of this city. Here's what they can look and sound like.

[VIDEO – Pirated scene from “Tarzan”  
in which the visuals are blurry and shaky,  
the sound is muffled and echoy]

As you can see, these tapes are barely watchable. But, now look at the same scene as it could be downloaded directly off the Internet.

[VIDEO – Excellent quality scene from “Tarzan”]

Instead of one bad quality videotape for sale on the street, we could soon be talking about unlimited numbers of high quality copies available on the Internet. And, new technology is making it faster and easier for users to download this kind of material.

The Internet pirates who produce these contraband copies have found some odd bedfellows in the intellectual community and in industry.

Social critics, like Esther Dyson, have spoken out against traditional copyright protection on the web. Ms. Dyson once listed the “new rules” of the Internet and went on to say, and I quote, that “Chief among the new rules is that ‘content is free’.” I must say that I find this assertion interesting, since at the bottom of Ms. Dyson's newsletter, one can clearly read that it is copyrighted ... and, as her subscribers can attest, her newsletter is most certainly not free.

Then there are companies like Cisco that have taken positions of neutrality when it comes to unauthorized use of copyrighted material on the Internet. I find this particularly unfortunate since they are arguing against their own long-term interests. This is because the Internet needs content ... and it needs more of it every day. The fact is that nobody signs up for the Internet because of the elegance of its Cisco routers. Nobody logs on because of that Intel chip inside. No, they use the Internet in ever-growing numbers because of the content. Right now, that content is largely information. But, increasingly, it will also be entertainment. Music is already a major force on the Net. The growth of bandwidth will increasingly make possible full video experiences. But, this expansion of Internet entertainment will stall if the creators of the content cannot enjoy the full rights of ownership of that content.

It does not take a CPA to figure out that a movie like "Dinosaur" does not come cheap. However, it is an investment worth making if there can be substantial reward in success. But, if this reward is allowed to be pirated away, then the creative risktakers will put their energies elsewhere, and the Internet will become a wonderful delivery system with nothing wonderful to deliver.

It's as if movie theater owners would stop sharing box office receipts with the studios. For a while, they would see their profit margins rise. But, it wouldn't be too long before there would be no movies to show in their theaters.

One of the fallacies of the intellectual property debate is that it's really just a conflict between the pro-technology members of the "New Media" against the anti-technology members of the "Old Media." As I hope I made clear with the discussion of "Dinosaur," this characterization couldn't be more wrong. At Disney we embrace technology. And we always have.

Throughout his career, Walt Disney recognized new technology as the friend of the storyteller. He kept pushing the envelope with the first sound cartoon, the first color cartoon, the first use of the multi-plane camera, the first use of stereophonic sound, and the development of robotics for his theme parks. Walt was also almost alone among movie studio chiefs in the 1950s when he recognized television as a new opportunity and not a threat.

At Disney today, we are not only seizing the tremendous possibilities offered by technology in movies, as with "Dinosaur" ... we are also active participants in the expansion of the Internet with our GO.com family of sites, such as Disney.com, ESPN.com, ABCNews.com, ABC.com and Family.com. And, we believe we are helping to pioneer the convergence of the Internet with television through the development of Enhanced TV, which allows viewers to become active participants in the programming, accessing stats during a football game, playing against the contestants on "Millionaire" and guessing the winners on the Oscars.

We intend to continue to pour resources into the Internet ... but not if this requires surrendering the rights to things we own.



With this in mind, our company is undertaking a wide-ranging strategy to make the Internet truly safe for intellectual property. This strategy consists of five main elements.

First of all, we are turning to our representatives in Washington. And, we do so clear in the understanding that this issue has fundamental roots in our nation's Constitution. Intellectual property rights are really no different from ordinary property rights. If you own something, you expect the government to respect your right to keep it from being stolen. Even big cable companies that merge with big Internet companies understand this.

Our main request of our government is to follow the Physicians' Creed – "First, do no harm." We are opposed to an intrusive government that could encumber the growth of the Internet. Let me make very clear that we support free expression on the Internet. We just don't support stealing the expression of others and offering it for free.

Toward this end, we believe that Congress should refrain from mandating a compulsory license of our product for redistribution on the Internet. Compulsory licenses were established to require broadcasters to make their signals available to cable companies. There are some who think this policy should be extended to the Internet. This would be terribly misguided. Compulsory licenses were manageable with cable TV because the content was not distributed beyond the service area of the cable company. The Internet knows no such limitations. On the Internet, content that is made available to a single computer can instantly be made available to virtually every computer in the world. The second element of our strategy to protect intellectual property is to work with governments around the world to respect our rights. We are actively involved in the Global Business Dialogue on E-Commerce, and our company is serving as chair of the Intellectual Property Work Group. The Internet is international. The issues involving it cannot be viewed with a myopic American eye. Instead, we must think and act globally.

The third element is education. Most people are honest and want to do the right thing. But they can't do the right thing if they don't know that they're doing a wrong thing. I am always amazed when I walk the streets of New York and stroll past an open fruit stand. Thousands of people go by each day respecting the fact that if they want an apple they need to pay for it, even though it would be incredibly easy to just take it.

When it comes to the Internet, most people simply aren't aware that the same issues apply. Working with the MPAA, we are advocating a more aggressive campaign to make people aware of intellectual property rights on the Internet, in much the same way as the FBI warning at the front of videotapes.

Fourth, we believe that the entertainment industry as a whole should take meaningful technological measures. To an extent, piracy is a technical problem and can be addressed with technical solutions. The studios, broadcasters and record companies – working in cooperation with the technology companies – need to develop innovative and flexible encryption devices that can stay one step ahead of the hackers.

The fifth and final of our initiatives is economic. The first four initiatives are essentially defensive, as we take legal and technological measures to make it more difficult, if not impossible, for the copyright pirates. In addition, we are also working to devise business strategies that put us on the offense by making our content available on the Internet at reasonable cost. History has shown that one of the best deterrents to pirated product is providing legitimate product at appropriate prices. In the music industry, we have already seen that people will gladly pay fair prices for legally-produced product even when it can be easily reproduced and unlawful copies can be easily acquired. I am certain that the same person who pays a reasonable price for an apple at his local fruit stand will pay a reasonable price for a video on his local hard drive.

To be sure, none of these measures represents a silver bullet that will stop piracy in its tracks. But, that's o.k. Markets are messy, and, over time, these initiatives will be refined and new ones will emerge. We are all learning as the Internet evolves. This is all part of the excitement. I only know that with every passing day we are getting closer to a time when the Internet will become another important revenue stream for the studios ... if not the most important. This is what happened with Pay TV in the '70s and with Home Video in the '80s. Today The Walt Disney Company, through GO.com, generates 400 million text page views a month on the Internet ... tomorrow the content will include shows and movies and personal video sports highlights and interactive entertainment. Schuyler Moore, a professor of entertainment law at UCLA estimates that, at a price of \$2.50 to download and watch a movie once, consumers would find it easier to pay for a film than to pirate it. If he is right, then the Internet would have a profoundly positive

impact on studios since, unlike home video rentals, the studios would be capturing all of the revenues.

In asserting the Internet's bright future for Hollywood, I am reminded of the iCrave case. As much as I condemn what iCrave.com was trying to do, I do agree with them on one thing – their choice of name. They were correct in thinking that people *crave* entertainment. It may not be up there with food and shelter ... but, it's not all that far behind. Thanks to the Internet, people will increasingly have yet another way to access entertainment. It may be a bumpy process to work everything out, but I have little doubt we will get there, simply because it is truly in the interests of everyone. It is in the fundamental interest of producers of intellectual property around the world – from movie studios to computer software companies to the publishing industry to the music business to sports teams to art museums, and on and on. It is in the interest of technology companies, who need compelling intellectual property to fill their electronic pipes. And, most important, it is in the interest of consumers, who are eager to take full advantage of this extraordinary new medium.

This is why I have no doubt that quality entertainment will still be made and will still succeed in the new digital era.

Indeed, as long as intellectual property rights are adequately protected -- and I am confident that they will be -- then I firmly expect that the pirates will be defeated and the entertainment industry will not go the way of the dinosaur.

[VIDEO – Pick up the “Dinosaur” clip where we left off]

Rather, like our digital pterodactyl, our industry will continue to take wing and fly on toward new creative horizons.

Thank you very much.